

## **Msukaligwa Municipality**

Financial Statements for the year ended June 30, 2009

### **Accounting Policies to the Annual Financial Statements**

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#### **1. Presentation of Financial Statements**

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practices (GRAP) and the Standards of Generally Accepted Municipal Accounting Practices (GAMAP) prescribed by the Minister of Finance in terms of:

\* General Notice 991 and 992 of 2005, issued in Government Gazette of 7 and 15 December 2005;

The Standards comprise of the following:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GAMAP 4	The Effects of Changes in Foreign Exchange Rates
GAMAP 6	Consolidated Financial Statements and Accounting for Controlled Entities
GAMAP 7	Accounting for Investments in Associates
GAMAP 8	Financial Reporting of Interests in Joint Ventures
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Property, Plant and Equipment
GAMAP 19	Provisions, Contingent Liabilities and Contingent Assets
GAMAP 6,7 & 8	Have been compiled with to the extent that the requirements in these standards relate to the municipality's separate financial statements

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierarchy approved in Directive 5 issued by the Accounting Standards Board. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

#### **1.1 Significant judgements**

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts presented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

##### **Trade Receivables / Held To Maturity Investments And/or Loans And Receivables**

The municipality assesses its trade receivables / held to maturity investments and/or loans and receivables for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the Statement of Financial Performance, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables / held to maturity investments and/or loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual deficit ratios are applied to loan balances in the portfolio and scaled to the estimated deficit emergence period.

##### **Allowance for slow moving, damaged and obsolete stock**

An allowance is made for slow-moving, damaged and obsolete inventory to write the inventory down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down, if any, is included in the Statement of Financial Performance.

##### **Impairment testing**

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment (i.e. carrying amount is less than recoverable amount) may have occurred, estimates are prepared of expected future cash flows for each group of assets.

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values.

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#### **1.2 Property, plant and equipment**

##### **Fixed assets**

Property, plant and equipment comprise tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one period. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets was measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset are enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally best estimate of the expected useful life of the asset, then it is regarded as repairs and maintenance and is expensed.

##### **Depreciation**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. The depreciable amount of an asset is the cost of an asset less its residual value. Residual value is the estimated amount a municipality would currently obtain from disposal of the asset, if the asset were already of the age in the condition expected at the end of the useful life. Depreciation commences when the asset is ready for its intended use. The annual depreciation rates are based on the following estimated average asset lives: - (In more detail in accordance with Council's Asset Management Policy)

Details	Years
<b>Infrastructure</b>	
• Roads and Motorways	10 - 15
• Traffic Equipment	5
• Storm water Drainage	20
• Airport Infrastructure	20
• Solid Waste	30
• Water and Sanitation	20
• Major Substations: Buildings	30
• Transformers and Related Equipment	20
• Mains	20
• Street Lighting	25
<b>Community asset</b>	
• Buildings	30
• Recreational Facilities	30
<b>Other assets</b>	
• Buildings	30
• Markets and Informal Markets	30
• Fire Engines	20
• Landfill Sites	30
• Car Parks	20
• Building Improvements	30
• Heavy and Mobile Plant	10 - 15
• Furniture and Fittings	7 - 10
• Vehicles	5 - 7
• Bins and Containers	5 - 10
• Plant - General	2 - 5
• Security Systems	3
• Office Equipment	3 - 7
• Other items of Plant and Equipment	2 - 5

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#### **1.2 Property, plant and equipment (continued)**

The useful life of an item of property, plant and equipment is reviewed periodically and, if expectations are significantly different from previous estimates, the depreciation charge from the current and future periods shall be adjusted.

These estimated useful lives and depreciation methods was not reviewed in the current year as required by GAMAP 17 as these requirements have been exempted in terms of Government Gazette 30013 of 29 June 2007

#### **Land**

Land is not depreciated as it is regarded as having an infinite life.

#### **Heritage assets**

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding to their estimated useful lives.

#### **Disposal of Property, Plant and Equipment**

The book values of assets are written off on disposal.

The difference between the net book value of assets (cost less accumulated depreciation) and the sales proceeds is reflected as a gain or loss in the Statement of Financial Performance.

#### **Impairment**

Where the carrying amount of an item property, plant and equipment is greater than the estimated recoverable amount, it should be written down immediately to its recoverable amount and an impairment loss is charged to the Statement of Financial Performance. The municipality should assess at each reporting date whether there is any indication that any items of PPE may be impaired by reviewing external and internal sources of information which indicates that impairments may have occurred.

For the current year, the municipality did not perform impairment testing on its assets as required by GAMAP 17 and IAS 36 (AC128), as these requirements have been exempted in terms of Government Gazette of 29 June 2007

#### **1.3 Financial instruments**

The municipality has various types of financial instruments and these can be broadly categorised as either *Financial Assets* or *Financial Liabilities*.

#### **Fair value determination**

Fair value information for trade and other receivables are determined as the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

#### **Investments**

Investments, which include fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at fair value upon initial recognition and thereafter carried amortised cost, using the effective interest rate method.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

#### **Loans to employees**

These financial assets are classified as loans and receivables and are measured at fair value plus direct transaction costs upon initial recognition. After initial recognition these loans are measured at amortised cost, using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

An impairment loss is recognised in surplus or deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

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#### **1.3 Financial instruments (continued)**

Impairment losses are reversed in subsequent periods when an increase in the loan's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

#### **Trade and other receivables**

Trade receivables classified as loans and receivables and are measured at initial recognition at fair value plus direct transaction costs. After initial recognition these receivables are measured at amortised cost, using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts.

Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against other income in the Statement of Financial Performance.

These financial assets are not quoted in an active market and have fixed or determinable payments.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value. These are initially recorded at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents are classified as loans and receivables.

#### **Bank overdraft:**

Bank overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Other financial liabilities are measured initially at fair value and subsequently at amortised cost, using the effective interest rate method. Bank overdrafts are classified as financial liabilities carried at amortised cost.

#### **Trade payables and borrowings:**

Trade payables and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Trade and other payables are classified as financial liabilities carried at amortised cost.

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#### **1.3 Financial instruments (continued)**

##### **Financial assets**

A financial asset is any asset that is a cash or contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Investments in fixed deposits
- Non - current receivables
- Consumer debtors
- Other debtors
- Short-term investment deposits
- Cash and cash equivalents

In accordance with IAS 39.09 the financial assets of the municipality are classified as follows into the two categories allowed by this standard:

Type of Financial Asset	Classification in terms of IAS 39.09
Investment in fixed deposits	Held to maturity
Non - current receivables	Loans and receivables
Consumer debtors	Loans and receivables
Other debtors	Loans and receivables
Short-term investment deposits	Held to maturity
Cash and cash equivalents	Loans and receivables

##### **Financial liabilities**

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Non - current liabilities
- Creditors
- Bank overdraft
- Current portion of non - current liabilities
- Consumer deposits

There are two main categories of *Financial Liabilities*, the classification bases on how they are measured. Financial liabilities may be measured at:

- Fair value through profit or loss; or
- Not at fair value through profit or loss (other financial liabilities)

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e purchased with the intention to sell or repurchase in the short term; or recent actual evidence of short-term profiteering or are derivatives).

Any other financial liabilities should be classified as financial liabilities that are not measured at fair value through profit or loss.

In accordance with IAS 39.09 the Financial Liabilities of the municipality are all classified as financial liabilities that are not measured at fair value through profit or loss or other financial liabilities carried at amortised cost.

##### **Initial and subsequent measurement:**

**liabilities**  
stated at their nominal value.

**Financial**  
Financial liabilities are

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#### **1.3 Financial instruments (continued)**

##### **Initial measurement**

Financial assets are measured at cost.

The requirement of IAS 39.43, AG 64, AG 65, AG 79 and SAICA Circular 9 that financial instruments should initially be measured at fair value has been exempted in terms of Government Gazette 30013 of 29 June 2007.

##### **Subsequent measurement:**

###### **Financial assets:**

- a) Held to maturity investments -  
Are measured at amortised cost less any impairment losses recognised to reflect irrecoverable amounts.
- b) Loans and receivables, which include trade receivables are measured at amortised cost less impairment losses, which are recognised in the Statement of Financial Performance.

##### **Impairment of financial assets**

For the current year, the municipality did not perform impairment testing on its financial assets as required by GAMAP 17 and IAS 39, as these requirements have been exempted in terms of Government Gazette 30013 of 29 June 2007.

##### **Consumer debtors:**

Consumer debtors are stated at cost less a provision for doubtful debts. The provision is made for all debtors that are older than 90 days as all debtors are regarded as having similar credit risk.

#### **1.4 Leases**

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. Leases are classified as finance or operating leases at the inception of the lease.

##### **Operating leases – lessee**

Rental payable under operating leases are recognised on the straight-line basis over the term of the relevant lease.

Operating lease rentals have not been recognised on the straight-line basis over the term of the relevant lease as required by IAS 17 as these requirements have been exempted in terms of Government Gazette 30013 of 29 June 2007.

#### **1.5 Inventories**

Consumable stores, raw materials, work in progress, unused water and finished goods are stated at the lower of cost and net realisable value. Cost includes all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. In general, the basis of determining cost is the first-in, first-out method.

If inventories are to be distributed at no charge or for a nominal charge, inventories are valued at the lower of cost and current replacement cost. The cost is deemed to be equal to the fair value of the item on the date acquired.

Water and purified effluent are valued at purified cost insofar as it's stored and controlled in reservoirs at year-end.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis. Direct costs are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

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#### **1.6 Contingent assets and contingent liabilities**

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the municipality. Contingent assets are not recognised as assets.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or nonoccurrence of one or more uncertain future events not wholly within the control of the municipality, or a present obligation that arises from past events but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised as liabilities.

#### **1.7 Related parties**

The municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. All municipalities and municipal entities, with whom the municipality has transacted with, are regarded as related parties in accordance with Circular 4 of 2005: Guidance on the term "state controlled entities" in context of IAS 24 (AC 126) - Related Parties, issued by the South African Institute of Chartered Accountants. Other related party transactions are also disclosed in terms of the requirements of the accounting standard.

#### **1.8 Post-employment benefits**

##### **Short-term employee benefits**

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

##### **Defined contribution plans**

Defined contribution plans are benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. Obligations for contributions to defined contribution plans are recognised as an expense in the income statement as incurred.

##### **Post-employment medical care**

Post - employment medical care benefits are provided by the municipality to its employees and their legitimate spouses. The entitlement to post-retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The amount recognised in the Statement of Financial Position represents the present value of the defined contribution obligation. The amount is discounted by using the market related interest rate at the reporting date.

#### **1.9 Provisions**

A provision is a liability of uncertain timing or amount. Provisions are recognised when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate.

#### **1.10 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

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#### **1.11 Revenue**

Revenue shall be measured at the fair value of the consideration received or receivable. No settlement discount is applicable.

**Revenue for the current year was initially recognised at cost in terms of Government Gazette 30013 of 29 June 2007.**

#### **Revenue from exchange transactions**

##### **Service charges**

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

##### **Pre-paid electricity**

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale.

##### **Interest earned**

Interest are recognised on a time proportion basis.

##### **Tariff charges**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariff. This includes the issuing of licenses and permits.

##### **Income from agency services**

Income from agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

##### **Sale of goods**

Revenue from the sale of goods shall be recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of goods;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the municipality retains neither continuing managerial involvement to the degree associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably; and
- the cost incurred or to be incurred in respect of the transaction can be measured reliably.

## **Msukaligwa Municipality**

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#### **1.11 Revenue (continued)**

##### **Rental of facilities and equipment:**

Revenue from the rental of facilities and equipment is recognised on a straight - line basis over the term of the lease agreement.

##### **Government grants and public contributions**

Revenue from government grants and public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment when such items of PPE qualifies for recognition and first becomes available for use by the municipality. Where government grants and public contributions have been received but the municipality has not met the condition, a liability is recognised.

**The requirements of IAS 20 (excluding paragraphs 24 and 26) have not been met in the current and prior financial years as these requirements have been exempted in terms of Government Gazette 30013 of 29 June 2007.**

A government grant related to a non-current asset with a useful life (e.g. PPE, intangible assets, etc.) including non-monitory grants at fair value, are presented in the Statement of Financial Position as deferred income that is recognised as income on a systematic and rational basis over the useful life of the asset.

##### **Rates and taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

##### **Fines**

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

##### **Donations and Contributions**

Donations and contributions are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment or the contribution is to finance PPE, when such items of PPE qualifies for recognition and first becomes available for use by the municipality.

##### **Revenue from non-exchange transactions**

###### **Revenue from recovery of unauthorised, irregular, fruitless and wasteful expenditure**

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors is virtually certain. Such revenue is based on legislated procedures.

#### **1.12 Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset. All other borrowing costs incurred are recognised as an expense in the Statement of Financial Performance when incurred.

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### **Accounting Policies to the Annual Financial Statements**

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#### **1.13 Value Added Tax**

The municipality accounts for Value Added Tax on the cash basis.

#### **1.14 Cash and cash equivalents**

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

#### **1.15 Unauthorised expenditure**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.16 Irregular expenditure**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.17 Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

#### **1.18 Foreign currencies**

The functional currency of the municipality is based on the currency of the primary economic environment in which the municipality operates.

Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary assets and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange differences are included in the Statement of Financial Performance.

#### **1.19 Comparative information**

##### **Current year comparatives:**

Budgeted amounts have been included in the annual financial statements for the current financial year only.

##### **Prior year comparatives:**

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

#### **1.20 Presentation currency**

These annual financial statements are presented in South African Rand.

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#### **1.21 Going concern assumption**

These annual financial statements have been prepared on a going concern basis.

#### **1.22 Offsetting**

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GAMAP, GRAP or GAAP.

#### **1.23 Reserves**

##### **Capital replacement reserve (CRR)**

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus / (deficit) to the CRR. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus / (deficit) are credited by a corresponding amount when the amounts in the CRR are utilised.

The amount transferred to the CRR is based on the municipality's need to finance future capital projects included in the Integrated Development Plan.

##### **Capitalisation reserve**

On the implementation of GAMAP/GRAP, the balance on certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment have been transferred to a capitalisation reserve instead of the accumulated surplus / (deficit) in terms of a directive (budget circular) issued by National Treasury. The purpose of this reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus / (deficit).

The balance on the capitalisation reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the capitalisation reserve to the accumulated surplus / (deficit).

When an item of property, plant and equipment is disposed, the balance in the capitalisation reserve relating to such item is transferred to the accumulated surplus / (deficit).

##### **Government grant reserve**

When items of property, plant and equipment are purchased from government grants, a transfer is made from the accumulated surplus / (deficit) to the government grants reserve equal to the government grant recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the government grant reserve to the accumulated surplus / (deficit). The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus / (deficit).

When an item of property, plant and equipment financed from government grants is disposed, the balance in the government grant reserve relating to such item is transferred to the accumulated surplus / (deficit).

##### **Donations and public contributions reserve**

When items of property, plant and equipment are purchased from public contributions and donations, a transfer is made from the accumulated surplus / (deficit) to the donations and public contributions reserve equal to the donations and public contributions recorded as revenue in the Statement of Financial Performance in accordance with a directive (budget circular) issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the donations and public contributions reserve to the accumulated surplus / (deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

When an item of property, plant and equipment financed from donations and public contributions is disposed, the balance in the donations and public contributions reserve relating to such item is transferred to the accumulated surplus / (deficit).